Agenda - Council - May 14, 2008

Report - Standing Policy Committee on Downtown Development - May 2, 2008

Item No. 2 Union Bank Tower - 504 Main Street - Development Agreement Extension
(Point Douglas Ward)
File EP-2

STANDING COMMITTEE RECOMMENDATION:

On May 7, 2008, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Downtown Development and submits the following to Council:

1. That the existing Offer to Purchase and Redevelop Lands Agreement dated December 2000, and the Development Agreement Extension for the Union Bank Tower dated March 20, 2006 for the Union Bank Tower Annex, and the former Leland Hotel Lands be amended to:

    A. Extend the term of the Agreement by two (2) years at no cost to 4207106 Manitoba Ltd.; and to,

    B. Provide for the following new conditions:

        i. That the proponents will have a Building Permit issued and construction commenced on the redevelopment of the entire Union Tower and Union Tower Annex by June 1, 2009 or the building will revert back to City.

        ii. That the works will be completed and an Occupancy Permit is issued for the entire Union Tower and the Union Tower Annex building by May 31, 2010 or the building will revert back to City.

        iii. That all costs incurred from works undertaken on the Union Tower and Union Tower Annex commencing May 2006 including any / all architectural studies / works, and from this point forward be assumed by 4207106 Manitoba Ltd. and that the City will not be responsible for the reimbursement of any of these costs in the event that the property reverts back to the City.

2. That the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council.

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Report - Standing Policy Committee on Downtown Development - May 2, 2008

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On May 7, 2008, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Downtown Development and submitted the matter to Council.

STANDING COMMITTEE RECOMMENDATION:

On May 2, 2008, the Standing Policy Committee on Downtown Development concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

Re: UNION BANK TOWER- 504 MAIN STREET
PROPOSED DEVELOPMENT AGREEMENT EXTENSION

For submission to: **The Standing Policy Committee on Downtown Development**

Original report signed by: **Director of Planning, Property and Development**

Report date: March 27, 2008

Recommendation(s):
That City Council approve:

1. That the existing Offer to Purchase and Redevelop Lands agreement dated December 2000 and the Development Agreement Extension for the Union Bank Tower, dated March 20, 2006 for the Union Bank Tower Annex, and the former Leland Hotel Lands be amended to;
    a. extend the term of the agreement by two (2) years at no cost to 4207106 Manitoba Ltd.; and to,
    b. provide for the following new conditions:
        i. That the proponents will have a Building permit issued and construction commenced on the redevelopment of the entire Union Tower and Union Tower Annex by June 1, 2009 or the building will revert back to City.
        ii. That the works will be completed and an Occupancy Permit is issued for the entire Union Tower and the Union Tower Annex building by May 31, 2010 or the building will revert back to City.
        iii. That all costs incurred from works undertaken on the Union Tower and Union Tower Annex commencing May /06 including any / all architectural studies / works, and from this point forward be assumed by 4207106 Manitoba Ltd. and that the City will not be responsible for the reimbursement of any of these costs in the event that the property reverts back to the City.
2. That the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council; and,
3. That the Proper Officers of the City do all things necessary to effect the intent of the foregoing.

REPORT SUMMARY

Key Issues:

- The Union Bank Tower is one of the most significant heritage properties in Western Canada.

- The Offer to Purchase and Redevelop Lands agreement with 4207106 Manitoba Ltd dated December, 2000 requires that; should the Purchaser fail to substantially redevelop, renovate and construct a minimum of 10,000 square feet of leased and occupied space within the Union Bank Tower and Annex Buildings within a period of 4 years from the date of closing, the Purchaser shall forthwith upon the City's request which may be made solely at the City's discretion, transfer and convey the land and buildings back to the City.
- As per the terms of the existing agreement, the Director of the Planning, Property, and Development Department had granted a one-year extension to the current owners. The owners have paid the City $46,400 as consideration of such extension.
- The owners further advised that they were unable to achieve the terms of the agreement before May 31, 2006, and requested a two year extension at which time the City would be entitled to request the transfer and conveyance of the property back to the City.
- The owners have worked, and continue to work aggressively towards the successful redevelopment of the Union Bank Tower, The Union Bank Tower Annex, as well as the former Leland Hotel site.
- The owners have applied, and their proposal was accepted by Parks Canada for a $1.3 M grant through the Commercial Heritage Property Incentive Fund towards heritage restoration of the exterior façade.
- The owners committed to expend a further $75,000 on architectural work in order to secure the Federal grant by the end of June 2006.
- March 12, 2008 the owners have requested an additional two-year extension to their existing Offer to Purchase and Redevelop Lands agreement with the City of Winnipeg.
- The new request for a two (2) year extension will enable the entire Union Bank Tower and Annex building to be developed and occupied by May 31, 2010.
- The owners are close to securing a proposal to convert the Union Bank Tower, Annex as well as the former Leland Hotel site for Red River College.
- The development proposal includes a new Culinary Institute, restaurant and student housing.
- The Red River College proposal and the two year extension is supported by CentreVenture Development Corporation.
- The Public Service believes that the Red River College proposal is the most practical and realistic development proposal, considering the unique building floor plate and available parking.
- The Public Service recommend the two-year extension based upon the capability of the ownership group, their demonstrated efforts to redevelop the property, as well as the knowledge that the project has significant policy implications in terms of heritage restoration and downtown revitalization. Furthermore, having the property revert back to the City would likely frustrate potential redevelopment solutions.
- Should the owner fail to meet mile-stones, specifically, June 1, 2009 to obtain a building permit for the entire building and May 31, 2010 to complete the project, the property will revert back to the City of Winnipeg.

- That all costs incurred from works undertaken on the Union Tower and Union Tower Annex commencing May /06 and from this point forward are assumed by 4207106 Manitoba Ltd. and the City will not be responsible for the reimbursement of any of these costs in the event that the property reverts back to the City.

Implications of the Recommendation(s):

General Implications

( ) None

( ) For the organization overall and/or for other departments

(X) For the community and/or organizations external to the City

( ) Involves a multi-year contract

Comment(s):

- Other potential developers have expressed some interest in the property if and when it becomes available but it is highly unlikely that a viable redevelopment proposal could be considered without significant public incentives.

Policy Implications

(X) No

( ) Yes

Comment(s):

Regulatory Implications

(X) None

( ) Eliminates or reduces regulatory impact

( ) Proposes regulatory impact

Comment(s):

Environmental Implications

(X) No

( ) Yes

Comment(s):

Human Resources Implications

(X) No

( ) Yes

Comment(s):

Financial Implications

(X) Within approved current and/or capital budget

( ) Current and/or capital budget adjustment required

Comment(s): The two year extension will be at no cost to the City. Further improvements will be solely at the owners cost.

REASON FOR THE REPORT:

As per the terms of the existing agreement and the extension agreement, following May 31, 2008, the owners of the Union Bank Tower will be required to transfer and convey the buildings and the land back to the City should they not be able to satisfy the terms of the Offer to Purchase and Redevelop Lands agreement dated May 31, 2001.
This Report recommends an additional two-year extension of that agreement to the current owners. Any extension to the existing Offer to Purchase and Redevelop Lands agreement requires the approval of City Council.

HISTORY:

On June 9, 1995, the City acquired the Union Bank Tower Building (504 Main) and the Union Bank Annex (500 Main Street) through the Tax Sale process.

On July 18, 1995, the City of Winnipeg, recognizing the major significance of these buildings, listed the Union Bank Tower as a Grade I structure on the Building Conservation list, and the Union Bank Annex as a Grade II Structure.

In February of 1997, the City issued an Invitation for Offers for the property; No. 97-020.

On September 22, 1997, the Government of Canada recognized both the Exchange District and the Union Bank Building as National Historic Sites.

In March 1998, Council directed the Planning, Property and Development Dept. (PP&D) to immediately reassess the total space requirements for the City of Winnipeg as an organization, including space availability and rates within the campus area.

On April 21, 1998, the City authorized a team of consultants to proceed with the Strategic Facilities Master Plan to resolve several key issues relative to projects currently under consideration as well as consolidation strategies for restructured departments.

On September 29, 1998, Council adopted the Strategic Facilities Master Plan that included consolidation of the PP&D Dept. to Fort Garry Place.

On October 20, 1999, Council accepted the Offer to Purchase and Redevelop Lands agreement from the current owners, 4207106 Manitoba Ltd.

In December 2000, the CAO accepted the final terms and conditions of the Offer to Purchase and Redevelop Lands agreement.

In May 23, 2001, Council approved an Encroachment Fee Waiver and May 31, 2001 as the date of closing, possession, and adjustment.

On September 13, 2001, the owner made application for a Heritage Conservation Tax Credit (HCTC). The owners had proposed a $24M project (with $15M in eligible heritage expenditures) for the redevelopment of the Union Bank Tower, the Union Bank Annex, as well as the former Leland Hotel site.

On October 24, 2001 Council approved a $2M HCTC for the Project.

On March 15, 2004, following extensive review, an Expression of Interest was issued for the possible relocation of the PP&D Dept. Closing date was May 14, 2004. A total of 9 submissions were received.

By letter dated May 3, 2005, the Director of PP&D advised that pursuant to Clause 8 of the Purchase and Redevelop Lands agreement, that he was prepared to grant the Purchaser a one-year extension of the redevelopment period (until May 28, 2006), subject to a payment to the City in the amount of $46,400 as consideration of such extension.

On July 18, 2005, the Standing Policy Committee on Downtown Development received a Report entitled; *Relocation of the Planning, Property, and Development Department*. The Committee did not concur in the administrative recommendation, received the report as information, and directed that negotiations to relocate the Planning, Property, and Development Department to the Union Bank Tower at 504 Main Street not be proceeded with.

By letter to the Mayor dated February 7, 2006, 4207106 Manitoba Ltd. requested a two-year extension to the Offer to Purchase and Redevelop Lands agreement.

On March 22, 2006 Council concurred in the recommendation of the Standing Policy Committee on Downtown Development and adopted the following:

1. *That the existing Offer to Purchase and Redevelop Lands Agreement for the Union Bank Tower, the Union Bank Tower Annex, and the former Leland Hotel Lands dated December 2000, be amended to:*
2.
   A. *Extend the term of the agreement by two (2) years at no cost to 4207106 Manitoba Ltd.; and to,*
   B.
   C. *Provide for the following new conditions:*
   D.

i. *That the proponents will commission a new architectural study at their own cost of $75,000 plus taxes.*
ii. *That the building façade restoration work will commence by July 31, 2006.*
iii. *That the proponents will have a Building permit issued and construction commenced on the redevelopment of the Union Tower by April 30, 2007.*
iv. *That all costs from this point forward be assumed by 4207106 Manitoba Ltd. and that the City will not be responsible for the reimbursement of any of these costs in the event that the property reverts back to the City following May 31, 2008.*
v.

3. *That the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council; and,*
4.
5. *That the Proper Officers of the City do all things necessary to implement the intent of the foregoing.*

DISCUSSION:

The Union Tower Bank Building at 504 Main Street is one of the most important heritage buildings in western Canada. In May of 2001, the current owners, 4207106 Manitoba Ltd, purchased the property from the City for $232,000. By agreement the owner also had to repair the roof at an estimated cost of $122,000.

Despite significant heritage restoration and effort to lease and redevelop the property, it remains vacant.

The owners, with support from CentreVenture have requested (letters attached) a further two-year extension to the existing Offer to Purchase and Redevelop Lands agreement. Although by the end of May 2010, the current owners will have had seven (7) years to achieve the terms of the agreement, they have requested the additional time in order for CentreVenture to secure a development proposal from Red River College for a Culinary Institute, restaurant and student housing use.

The Offer to Purchase and Redevelop Lands agreement cannot be extended without Council approval. Clause 8 of the agreement commits the Purchaser to expend funds sufficient to redevelop, renovate, and construct a minimum of 10,000 square feet of leased and occupied space within the Union Bank Tower and Annex Buildings located on the Union Bank Tower lands within a period of 4 years[1] from the date of closing.

Should the Purchaser fail to substantially redevelop, renovate and construct a minimum of 10,000 square feet of leased and occupied space within the Union Bank Tower and

[1] Per the terms of the agreement, the Director of the PP&D Dept. granted a one-year extension giving 4207106 Manitoba Ltd. ownership until May 31, 2006.

Annex Buildings within a period of 4 years (by agreement 5 years) from the date of closing, the Purchaser shall forthwith upon the City's request which may be made solely at the City's discretion, transfer and convey the land and buildings back to the City.

Clause 8 (c) (i) and (ii) of the Agreement requires that if the Purchaser cannot substantially complete the redevelopment work within the 4 year period, the Director (being the Planning, Property, and Development Department) may grant at his sole and unfettered discretion the Purchaser an extension, not to exceed one year, subject to a payment for the extension as noted in Clause 8 (c) (ii).

Clause 8 (c) (ii) – a sum equal to twenty (20%) percent of the full purchase price ($232,000) in the event the redevelopment and lease of a maximum of 10,000 square feet of space within the Union Bank Tower and Annex Buildings, located on the Union Bank Tower lands, has not been commenced at any time during the redevelopment period.

In 2005, the owners paid $46,400 as consideration of such extension.

On March 22, 2006 Council approved a two (2) year extension to the agreement, subject to the following conditions:

1. *That the existing Offer to Purchase and Redevelop Lands Agreement for the Union Bank Tower, the Union Bank Tower Annex, and the former Leland Hotel Lands dated December 2000, be amended to:*
2. *Extend the term of the agreement by two (2) years at no cost to 4207106 Manitoba Ltd.; and to,*
3. *Provide for the following new conditions:*
    - *i That the proponents will commission a new architectural study at their own cost of $75,000 plus taxes.*
    - *ii That the building façade restoration work will commence by July 31, 2006.*
    - *iii That the proponents will have a Building permit issued and construction commenced on the redevelopment of the Union Tower by April 30, 2007.*
    - *iv That all costs from this point forward be assumed by 4207106 Manitoba Ltd. and that the City will not be responsible for the reimbursement of any of these costs in the event that the property reverts back to the City following May 31, 2008.*
4. *That the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council; and,*
5. *That the Proper Officers of the City do all things necessary to implement the intent of the foregoing.*

With the exception of clause 3.iv, noted above, all conditions of the extension agreement have been satisfied. It should be noted that construction work continues within the Union Tower to develop 10,000 sq. ft. of office space, in accordance with their Building Permit. A number of code issues have recently been identified and final occupancy for the office use may not be approved by May 31, 2008. Additionally, CentreVenture has recommended that construction be restricted in anticipation of securing Red River College as a new tenant for the Union Tower building.

Assuming Non-Performance or no further extension is granted; what happens on May 31, 2008?

Clause 8 (a) of the original agreement would take effect as follows:

- *The Purchaser shall transfer and convey all of the development lands and buildings located thereon clear of any and all encumbrances.*
- *The City shall repay without interest the full purchase price together with the final cost of the roof works, less the sum of the following adjustments:*
    - Outstanding mortgage, taxes, levies, local improvements
    - An amount equal to 10% of the purchase price and the final cost of the roof representing liquidated damages
    - An amount incurred by the City in restoring the development lands and buildings
    - An amount equal to any commission that the City may have paid on the sale.
    - An amount equal to the GST
    - An amount equal to the land transfer tax if applicable.

The purchase price paid by 4207106 Manitoba Ltd. was $232,000. By agreement, the owner repaired the roof at an estimated cost of $122,000.

The Public Service acknowledges the efforts of the owners to date in obtaining a Building Permit and attempting to have the property successfully redeveloped. The owners have applied, and their proposal has been accepted by Parks Canada, for a $1.3 M grant through the Commercial Heritage Property Incentive Fund towards heritage restoration of the exterior façade. Furthermore, the owners have been aggressively marketing the property and are currently working with CentreVenture and Red River College, which is interested in acquiring the building.

The Public Service recommend the two-year extension based upon the capability of the ownership group, their demonstrated efforts to redevelop the property to-date, as well as the knowledge that the project has significant policy implications in terms of heritage restoration and downtown revitalization. Furthermore, having the property revert back to the City would likely frustrate potential redevelopment solutions. Additionally, the department would be challenged at this time to reimburse approximately $354,000 to 4207106 Manitoba Ltd for the Union Bank Tower.

Pursuant to additional discussions held with the ownership group, in order to be granted a further two-year extension of the agreement, 4207106 Manitoba Ltd. will commit to the following:

1. A new Building Permit issued for the development of the property for Red River College commenced by April 30, 2009.
2. That the construction is completed and an Occupancy Permit is issued by May 31, 2010.

The Public Service recommend that no fee to be charged in consideration of such extension. However, in consideration of such extension, 4207106 Manitoba Ltd. will be responsible for all costs from May 31, 2006 and from this point forward and the City will not be responsible for the reimbursement of any of costs in the event that the property reverts back to the City following May 31, 2008. The Public Service also recommends that the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council.

Financial Impact Statement

Date: March 19, 2008

COMMENTS:

The recommendations in this report concern the extension of the existing Offer to Purchase and Redevelop Lands agreement for the Union Bank Tower, Annex, and former Leland Hotel lands. There are no direct financial implications associated with the recommendations.

"Original signed by"
Mike McGinn, CA
Manager of Finance

IN PREPARING THIS REPORT, THERE WAS:

Internal Consultation With and Concurrence By:

Internal Services, Legal Services Division

External Consultation With:

n/a

THIS REPORT SUBMITTED BY:

Planning, Property and Development Department
Division: Office of the Director
Prepared by: Barry Thorgrimson

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March 17, 2008

Mr Barry Thorgrimson
Acting Manager of Economic Development City of Winnipeg
Planning Property and Development Dept.
65 Garry Street
Winnipeg, MB R3C 4K4

Dear Barry,

Re: Union Bank Tower – 504 Main Street

Further to our recent discussion pertaining to the above noted property, please accept this letter as our support of Greentree Developments request for an extension to the time frame associated with the development agreement for the Union Bank Tower.

As you are aware, CentreVenture is currently in discussions with Red River College on the conversion of the tower to student housing and the expansion and relocation of the Culinary Institute from the Notre Dame campus to this important and historic location.

It is anticipated that the decision making process for RRC will likely extend beyond the May 31, 2008 date contained in the development agreement and in keeping with the spirit of cooperation to date, we would request that the City extend the time frame for completion of the terms of this agreement to facilitate the RRC project. We are confident that these discussions will bare fruit and we look forward to the successful transformation of this most important property.

Trusting that you find this satisfactory. Should you have any questions or require clarification, please call.

Yours truly,

CentreVenture Development Corporation

Ross McGowan MALA, CSLA
President and CEO

492 Main Street, Winnipeg, Manitoba R3B 1B7 Telephone: (204) 954-7733 / Fax: (204) 954-7739 / email: info@centreventure.com
www.centreventure.com

March 12, 2008

Mr. Barry Thorgrimson
Acting Manager of Economic Development
Planning, Property and Development
65 Garry Street
Winnipeg, MB R3C 4K4

Dear Mr. Thorgrimson,

Re: Union Bank Tower – 504 Main Street – Proposed Development Agreement Extension

The current development agreement extension for the above noted property expires on May 31, 2008. This letter is a request for an extension of the agreement until May 31, 2010.

We have complied with the building permit and work is proceeding with a potential completion date of May 15, 2008.

As you are aware CentreVenture Development Corporation is currently negotiating with Red River College to occupy 504 Main Street.

Ross McGowan of CentreVenture has requested we apply for this extension. CentreVenture has also requested that the work undertaken be restricted in order to avoid any unnecessary or redundant costs because of the anticipated redevelopment of the property by Red River College.

It is our intention to transfer the building to CentreVenture or Red River College at no cost with the intention of realizing a tax credit for it.

Would you please contact the writer at your earliest convenience should you have any questions regarding the above noted request for an extension of the existing development agreement. Thank you.

Yours truly,

Guy Hobman
President/CEO

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4207106 MANITOBA LTD.

February 7, 2006

His Worship Mayor Sam Katz
Office of the Mayor
2nd Floor, Council Building
510 Main Street
Winnipeg, MB R3B 1B9

Dear Mayor Katz:

Thank you for taking the time to meet with the Honourable Mr. Gary Filmon and myself to discuss the future plans for the Union Tower Building. I am pleased to hear that you would consider a two (2) year extension to our agreement with the City of Winnipeg. As per your staff's request, following is our submission of how we plan to proceed with the development of this building.

1. Over the last two years, we have worked together with Parks Canada to qualify the Union Bank Tower for their Commercial Heritage Property Incentive Fund. Our proposal has been accepted in principle. We need to respond to a few of their comments and would be in a position to have a signed agreement by the end of March, 2006. To this end, we have hired Prairie Architects Inc. for a total price of $75.000.00 plus taxes. We plan to start the restoration work by spring 2006. We expect the exterior restoration only to cover over $1,300,000.00 which we are prepared to finance.

2. We are now actually marketing the building with Stevenson Le Page. We have at least two prospective tenants interested in leasing the space. One would require 10,000 square feet. The other would require 20,000 square feet. Either of these two tenants or both can be accommodated in the existing building. This in itself may not be the optimum development since it might preclude the full development of this site.

.....2

240 River Avenue, Winnipeg, R3L 0B4
Telephone 204 477-6950 Fax 204 452-7534

3. At the moment, we are entertaining a proposal for a hotel – spa development that would utilize the entire site. Over the next 3 months we will be looking at a business plan that would hopefully prove the case for such an enterprise.

4. Lastly, we are working in a plan to build a mixed use residential and commercial development.

In conclusion, we hope to have a signed agreement with Parks Canada by March 31, 2006. We would commence restoration work by this spring. Most importantly, we would hope to be in for a building permit for one or another of the above development projects either the fall of 2006 or spring of 2007.

Hopeful that this would meet with your approval.

We are sincerely yours,

Guy Hobman
PACE-GREENTREE BUILDERS

Joe Bova
MAN-SHIELD CONSTRUCTION INC.

ON BEHALF OF 420710 MANITOBA LTD.

c.c.: Mr. Peter DeSmedt
Mr. H. Finnigan
Ms. C. Boryskavich
Mr. B. Gray